

NATIONAL SECURITY COUNCIL

7/5/73 X  
URGENT INFORMATION

March 30, 1973

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MEMORANDUM FOR HENRY A. KISSINGER

FROM: A. W. Marshall *AWM for*

SUBJECT: Soviet Grain Situation

ON-FILE NSC RELEASE INSTRUCTIONS  
APPLY

Background

You should be aware of an emerging Soviet problem with grain. Last year, as you know, they had a disastrous wheat crop, and were forced to buy 26 million tons of grain abroad. More than 11 million of this was U.S. wheat, and you will recall that a combination of shrewd Soviet buying and inept U.S. government response to the situation resulted in high subsidy cost to us, abnormally high prices for wheat and its products later on the U.S. market, and widespread adverse domestic comment and publicity.

The Soviet wheat crop is off to a poor start again this year. Weather conditions this winter have been very adverse to a good crop of winter wheat. While some of the loss can be made up by greater effort in spring planting, and thus we cannot say positively now that they face a crisis, there is a good chance that they will need to import very large quantities of grain. Because of world supply conditions, most of this will have to come from the U.S. Attached at Tab A is a CIA report which indicates that even if the Soviets are able to recover and achieve a record crop, they will still need to import substantial amounts of grain. The report also points out Soviet activity taking place now in anticipation of the need to cover themselves. At Tab B is a more recent and detailed report of this activity, indicating that they are already getting substantial quantities of grain under contract in this country and elsewhere, and are making arrangements to move it. At Tab C is a table showing recent and projected Soviet grain supply and demand.

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Brezhnev's Problem

The principal factor that sustains Soviet demand for grain appears to be Brezhnev's determination to continue improvement in the quality of the

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Soviet diet. This means expanding meat output, which takes a lot of grain. There is some evidence that disagreement over continued emphasis on the consumer led to the demotion of Polyansky from Deputy Premier to Minister of Agriculture, and the ouster of Matskevitch from the latter post.

Soviet agricultural problems, and the fact that the leadership seems to feel a need to continue policies resulting in high grain demand, suggest an opportunity for the U.S. As a minimum, we would wish to avoid bailing Brezhnev out, and paying for the privilege, as we did last summer. Further, there may be some way to use this situation to our advantage.

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## **Soviets Begin New Grain Negotiations**

The Soviets have approached the United States, Canada, Australia, and France for a new round of grain purchases. Although none of the reported contracts has been confirmed, the Soviets logically would begin to shop for a basic grain package at this time. The Canadian and Australian contracts presumably would be for wheat to be delivered in the fiscal year beginning in July. The French reportedly sold the Soviets 300,000 tons of feed barley for delivery this spring. The rumored US sale is for an estimated 5 million tons of corn, possibly for delivery during an 18-24 month period. Last year the Soviets bought almost 20 million tons of grain from these four countries, about three-fourths of their total purchases.

The Soviet winter grain crop got off to a bad start, but a successful spring crop would recoup these losses. The Soviet leaders will not have a reasonable appreciation of the probable size of the 1973 crop until early July, after winter grains have reached maturity and spring grains are in the critical "heading" stage. With a successful sowing campaign, normal weather, and average yields, a record crop of 153 million tons could be harvested, compared with 134 million tons in 1972 and the previous record of 150 million tons in 1970. Assuming continued pursuit of the 1975 livestock goals, a normal increase in the demand for grain for other uses, and export commitments equal to those in FY 1973, total demand for grain this year could reach 165 million tons. Thus the Soviets would need to import at least 12 million tons of grain and more if they decide to rebuild buffer stocks for future harvest shortfalls. Subnormal weather could easily result in a crop which would be as much as 25 million tons short of satisfying domestic requirements and export commitments

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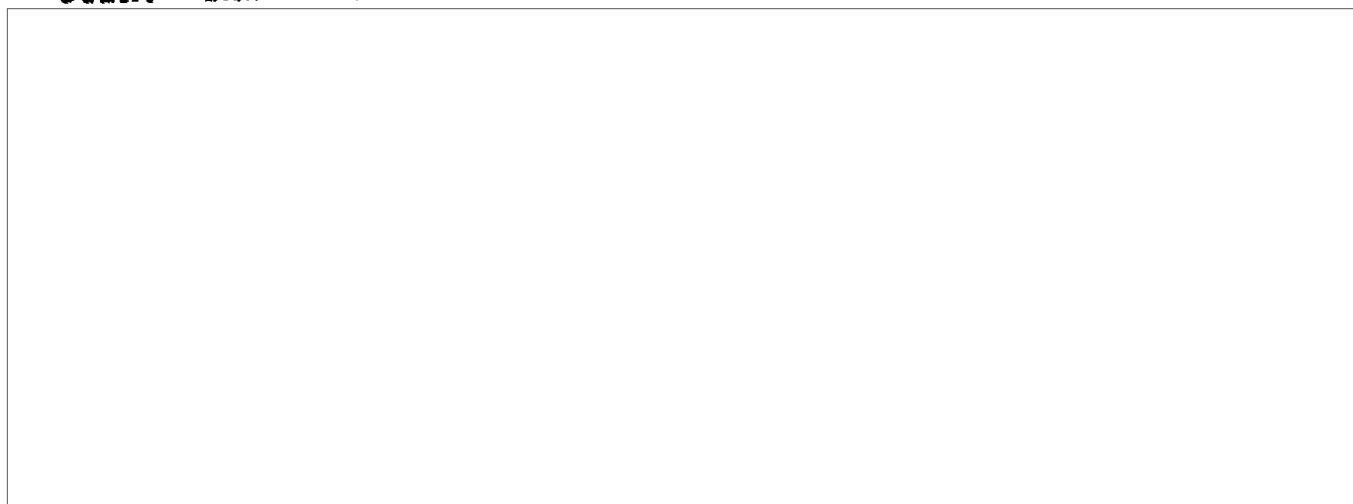
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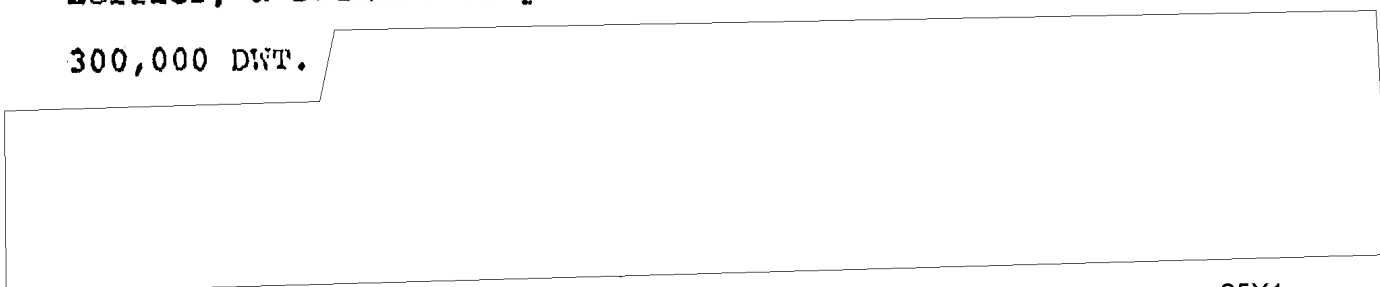
Evidence Concerning New Soviet Purchases of US Corn

In the Economic Intelligence Weekly of 29 March it was indicated that the Soviets, as part of a new round of grain purchases, may have recently bought 5 million tons of US corn. This estimate was based on the following:



25X1 (b) During the past week, Scandinavian steamship companies are reported to have time-chartered three quarters of a million deadweight tons (DWT) of bulk carriers on behalf of the USSR for periods of one to two years. This ship tonnage would be sufficient to move almost five million tons of US grain to the USSR in a year.

25X1 The firms involved are Klaveness, a Norwegian company which has chartered about 450,000 DWT of ships and August Leffler, a Swedish shipowner who has lined up about 300,000 DWT.

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A Reuters dispatch dated 28 March reports from sources in the Chicago Board of Trade that heavy bookings had been made with Scandinavian steamship companies to carry US corn to the Black Sea in September 1973 and after. Based on the magnitude of the bookings, the Board has reportedly concluded that the USSR will import 3-5 million tons of grain from the US (in FY 1974).

Many of the ships chartered by Klaveness are reported to be fitted for Great Lakes Service, indicating that during the April through November season on the St. Lawrence Seaway they will probably be used out of the Great Lakes to lift US grain.

Shipments of 2 million tons of corn originally scheduled to take place prior to 30 June have been deferred into the next crop year by agreement between the Soviets and US traders. Additional tonnages of wheat and other grains could also spill over into the next crop year because of difficulties in getting grain out of Gulf ports, bringing the total tonnage of grain contracted in fiscal 1973 but remaining to be shipped in fiscal 1974 above 2 million tons. The USSR would not be arranging two year time charters of foreign vessels if it plans to move only this spill-over, however.

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Soviet Capability for Transporting Grain in FY 1974  
and FY 1975

This chartering provides the Soviets with a capability to move tonnages in fiscal 1974 and 1975 close to those in fiscal 1973. With rising time and voyage charter rates for grain ships at their highest levels since the peak years of 1963 and 1970 and with suitable ships hard to find, the Soviets apparently want to be in a contingency position to handle grain imports in FY 1974 and FY 1975 at levels close to those in FY 1973. The tonnage of its own ships committed to the grain lift from the US, 1.5 million DWT, could carry 9.0 million tons in a year if assigned fulltime to the task. The USSR also has at least 200,000 DWT of third-flag ships time-chartered in October 1972 whose charters extend into fiscal 1974. In addition, the USSR will be using US-flag ships, to the extent they are available, in meeting its commitment under the US/Soviet Maritime Agreement to give US ships the opportunity to carry at least one-third of US/Soviet Trade.

Over the next two fiscal years the bulk of Soviet grain imports will come from the US. The extent to which Canada, Australia, and other suppliers participate in the Soviet trade will depend on their harvests and the requirements of their regular customers. Thus, the tonnage now being lined up by Moscow need not all be used for American shipments.

Table 2

USSR: Estimates of Grain Supply and Demand  
FY 1971 - FY 1974

Year Beginning 1 July	Supply of Grain			Demand for Grain					Million Metric Ton
	Net Production	Imports	Total	Exports	Food, Seed & Industrial Use	Waste	Inventory Change	Livestock Feed	Total
1970/71	150	3	153	8	85	4½	1	54½	153
1971/72	148	8	156	8	87½	4½	-3½	59½	156
1972/73	134	26	160	6	86½	5	0	62½	160
Projected 1973/74	153	12	165	6	86½	5	0	67½	165